

## Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 STR-07 ISO-00 AID-05 CEA-01 CIAE-00  
COME-00 EB-08 EA-10 FRB-03 INR-10 IO-13 NEA-10  
NSAE-00 ICA-11 OPIC-03 SP-02 LAB-04 SIL-01  
AGRE-00 OMB-01 SS-15 /127 W  
-----069256 271401Z /72

R 271251Z APR 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 8071  
WHITE HOUSE WASHDC  
DEPARTMENT TREASURY  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY MEXICO  
AMEMBASSY BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 07863

WHITE HOUSE FOR OWEN

USEEC, USOECD ALSO FOR EMBASSY

E.O. 11652: XGDS-1  
TAGS: EFIN, GW  
SUBJECT: GERMAN ECONOMIC POLICY

1. SUMMARY. THE GOVERNMENT IS CLEARLY TRYING TO  
AVOID BEING DRAWN AT THIS TIME INTO A DEBATE ON FURTHER  
STIMULATIVE MEASURES AND WISHES TO POSTPONE ITS OWN  
INTERNAL RE-APPRAISAL OF ECONOMIC POLICIES UNTIL  
JUNE/JULY. IT IS ALREADY CLEAR THAT EVEN IF AT THAT  
TIME A CONSENSUS FOR FURTHER ACTION SHOULD DEVELOP,  
THERE IS LIKELY TO BE WIDE DISAGREEMENT WHAT THAT ACTION  
SHOULD BE, AND IT WOULD TAKE SKILLFUL POLITICAL  
MANEUVERING TO FIND A PROGRAM OR PACKAGE ENDORSED BY  
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ALL PARTS OF THE COALITION AND WHICH IN ADDITION  
COULD WIN THE APPROVAL OF THE NON-COALITION CONTROLLED  
UPPER HOUSE OF THE GERMAN LEGISLATURE. END SUMMARY.

2. DEBATE ON POSSIBLE ADDITIONAL STIMULATIVE STEPS  
HAS BEEN GIVEN LARGE IMPETUS BY PRESENTATION OF NEW  
PROJECTIONS BY THE FIVE LEADING ECONOMIC RESEARCH

INSTITUTES (SEE BONN 7642 AND 7715), BUT GOVERNMENT SPOKESMEN, THE FINANCE MINISTER, THE ECONOMIC MINISTER AND THE CHANCELLOR HAVE NOW ALL GONE ON RECORD THAT THE GOVERNMENT IS NOT READY TO CONSIDER ANY ADDITIONAL STEPS AT THIS TIME. THE DEBATE MAY ACTUALLY PROVE TO BE COUNTERPRODUCTIVE BY LEADING THE GOVERNMENT TO PUBLICLY DIG ITSELF EVEN DEEPER INTO THE POSITION THAT POLICIES CANNOT BE SENSIBLY REEVALUATED UNTIL SECOND HALF OF JUNE OR JULY. (COMMENT: IN PRESENTING THEIR "LOWERED" PROJECTIONS AT THIS TIME THE INSTITUTES HAVE ENGAGED IN SOME GAMESMANSHIP OF THEIR OWN. THE MAIN DIFFERENCE BETWEEN WHAT THEY SAY NOW AND WHAT THEY PRESENTED LAST FALL LIES IN THEIR POLICY RECOMMENDATIONS RATHER THAN IN THE PROJECTION ON WHICH THESE ARE SUPPOSED TO BE BASED. ON OVERALL 1978 GNP, FOR EXAMPLE, THE INSTITUTES LAST FALL PROJECTED A REAL GROWTH RATE OF 2.8 PERCENT WHICH IN THEIR CURRENT PROJECTION THEY HAVE INSIGNIFICANTLY REDUCED TO 2.7 PERCENT. BUT IN THEIR PUBLIC PRESENTATION LAST FALL'S PROJECTION WAS ROUNDED UPWARD TO 3 PERCENT WHILE THIS SPRING'S PROJECTION IS ROUNDED DOWNWARD TO 2.5 PERCENT THUS GIVING THE IMPRESSION OF A MORE SIGNIFICANT CHANGE OF OPINION. DESPITE THE EMPHASIS IN THIS SPRING'S REPORT ON STAGNATION AND THE LACK OF EXPANSION OF INVESTMENTS THE SPRING PROJECTION IN FACT UPS LAST FALL'S 1978 PROJECTION FOR FIXED INVESTMENT FROM CONFIDENTIAL

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A 3.5 PERCENT TO A NEW 4.8 PERCENT REAL GROWTH RATE. THE PROJECTED 1978 REAL GROWTH RATES OF PRIVATE CONSUMPTION AND GOVERNMENT CONSUMPTION ARE ALSO UPPED IN THE NEW PROJECTION. THESE INCREASES PRACTICALLY COMPENSATE THE DECREASE IN THE PROJECTED 1978 REAL GROWTH RATE FOR EXPORTS FROM 5.4 TO 3.8 PERCENT LEADING TO A PRACTICALLY UNCHANGED (EXCEPT FOR THE ROUNDING GIMMICK) OVER-ALL GNP PROJECTION.)

3. ALL ECONOMIC POLICY-LEVEL OFFICIALS TO WHOM WE HAVE TALKED CONFIRM TO US THAT THERE IS FULL AGREEMENT WITHIN THE GOVERNMENT ON POSTPONING FOR THE TIME BEING ANOTHER LOOK AT ECONOMIC POLICIES. MARCH INDUSTRIAL PRODUCTION AND ORDER DATA WILL NOT BE AVAILABLE UNTIL ABOUT MAY 5 AND INTERNAL VERY PRELIMINARY FIRST QUARTER GNP GUESSTIMATES WILL NOT BECOME AVAILABLE UNTIL THE END OF THAT MONTH WITH OFFICIAL DATA NOT LIKELY TO BE READY UNTIL THE END OF JUNE. ECONOMIC MINISTRY POLICY PLANNERS ALSO FEEL THAT SINCE APRIL INDUSTRIAL PRODUCTION FIGURES STILL WILL BE PARTLY AFFECTED BY THE STRIKES, THEY WOULD WANT TO HAVE AT LEAST SOME "FEEL" OF HOW THE ECONOMY IS ACTING IN MAY BEFORE

MAKING DEFINITE POLICY RECOMMENDATIONS. THIS WOULD  
PUT THE COMMENCEMENT OF AN INTERNAL POLICY REAPPRAISAL  
TOWARD THE END OF MAY OR BEGINNING OF JUNE AT THE

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 07863

EARLIEST. WE ARE TOLD THAT THE CHANCELLOR WOULD LIKE  
TO PUSH IT BACK A LITTLE FURTHER THAN THAT. WHILE  
GERMAN OFFICIALS REALIZE THAT INTERNAL AND EXTERNAL  
PRESSURES FOR AN EARLIER REEXAMINATION WILL MOUNT,  
THEY CLEARLY HAVE DECIDED TO STONEWALL, AT LEAST FOR  
THE TIME BEING, AND TO REFUSE TO BE DRAWN INTO THE  
DEBATE AS MUCH AS POSSIBLE.

4. CONCERNING WHAT MEASURES, IF ANY, SHOULD BE TAKEN  
IF THE ECONOMY SHOWS NO SIGNIFICANT PICKUP BY JUNE OR  
JULY, THE PRESENT LINEUP OF POSITIONS SEEMS ROUGHLY  
AS FOLLOWS:

- (A) CHANCELLOR - PRAGMATIC WITH A REFUSAL TO  
EVEN HINT AT PREFERENCES AT THIS TIME.
- (B) ECONOMICS MINISTRY - TAX REDUCTIONS PROBABLY

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CONCENTRATING ON A TAX RATE REFORM INVOLVING  
SIGNIFICANT PERMANENT REDUCTIONS STARTING JANUARY 1,  
1979. ECONOMICS MINISTRY OFFICIALS FEEL THIS TO BE  
MORE IMPORTANT THAN AN IMMEDIATE TEMPORARY TAX CUT  
UNDER THE STABILITY AND GROWTH LAW AND IN ANY CASE  
BELIEVE THAT A CUT UNDER THE STABILITY AND GROWTH LAW  
(WHICH HAS TO BE A UNIFORM PERCENTAGE FOR ALL TAX  
BRACKETS AS WELL AS THE CORPORATE INCOME TAX) WOULD  
RUN INTO SUCH DETERMINED OPPOSITION ON THE LEFT WING  
OF THE SPD THAT THERE WOULD BE LITTLE CHANCE FOR IT  
UNLESS THE ECONOMY LOOKED MUCH WORSE THAN THEY THINK  
LIKELY.

(C) FINANCE MINISTER MATTHOEFFER - INCREASED  
GOVERNMENT EXPENDITURES (PARTICULARLY ON PROMOTING  
TECHNOLOGICAL DEVELOPMENTS).

(D) FINANCE MINISTRY STAFF - GRIT YOUR TEETH AND  
RIDE THROUGH THE SLOWER ECONOMIC PERFORMANCE WITHOUT  
TAKING ADDITIONAL FISCAL MEASURES IN THE HOPE OF A  
PICKUP IN INVESTMENT AND MORE "REASONABLE" WAGE  
SETTLEMENT NEXT YEAR.

(E) BUNDESBANK - SAME AS (D) ABOVE.  
WE WANT TO EMPHASIZE, HOWEVER, THAT THE ABOVE ARE VERY  
ROUGH CARICATURES OF PRESENT ATTITUDES AND NOT ALWAYS  
BASED ON FULL DISCUSSIONS BY OURSELVES WITH OFFICIALS  
OF THE ORGANIZATIONS INVOLVED.  
STOESSEL

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**TAGS:** EFIN, GE  
**To:** STATE WHITE HOUSE  
**Type:** TE  
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